# LEGISLATIVE SERVICES AGENCY
## OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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## FISCAL IMPACT STATEMENT

**LS 7020** **NOTE PREPARED:** Jan 1, 2010
**BILL NUMBER:** HB 1286 **BILL AMENDED:**

**SUBJECT:** Minimum Employment Requirement for Edge Credit.

**FIRST AUTHOR:** Rep. Borror **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** X **GENERAL** **IMPACT:** State
**DEDICATED**
**FEDERAL**

**Summary of Legislation:** This bill eliminates, for taxable years beginning after December 31, 2009, the requirement that a taxpayer applying for the Economic Development for a Growing Economy (EDGE) tax credit to retain existing jobs in Indiana must employ at least 35 employees in Indiana.

**Effective Date:** January 1, 2010 (retroactive).

**Explanation of State Expenditures:** The bill could potentially broaden eligibility and expand the applicant pool for EDGE credits relating to job retention projects. This may increase the number of applications for EDGE credits and the number of EDGE credits awarded annually, creating additional administrative demands on the Indiana Economic Development Corporation (IEDC).

**Explanation of State Revenues:** *Summary* - The bill eliminates the requirement that businesses must employ at least 35 employees to be eligible for EDGE credits for job retention projects beginning in tax year 2010. This change could increase the number of EDGE credits awarded for projects that lead to job retention, which could potentially increase the revenue loss from EDGE credits. However, the magnitude of this loss is indeterminable.

*Background Information* - Under current statute, businesses that (1) create new investment and jobs in Indiana or (2) undertake projects to retain existing jobs in Indiana are eligible for EDGE credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses. For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits for job retention were awarded for the first time in 2003. The EDGE credit amounts (for job retention) awarded in FY 2004 totaled approximately $3 M and in FY 2005 totaled approximately $2.8 M. There was a $5 M cap for the aggregate amount of EDGE credit awards during both fiscal years. In FY 2006, the aggregate amount of EDGE credits that could be awarded for a state fiscal year was increased to $10 M. EDGE credits for retention totaled $1 M in FY 2006 and $370,000 in FY 2007. About $3.8 M has been awarded for FY 2010.

EDGE credits are awarded for a duration of up to 10 years during which the credit amounts may be used. EDGE credits may be taken against a taxpayer's AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed 10 taxable years. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** IEDC.

**Local Agencies Affected:**

**Information Sources:** Eric Shields, IEDC, 234-3997.

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